

Message Text

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PAGE 01 COLOMB 03643 180400Z

63

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TAGS: EINV, EFIN

SUBJ: SRI LANKA: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A) STATE 261921; B) COLOMBO 2739

1. SINCE REF B SENT, GSL HAS MADE CLEAR POLICY PROPOSALS, WHICH, IF IMPLEMENTED, COULD IMPROVE SRI LANKA'S FOREIGN INVESTMENT CLIMATE AND PROSPECTS. 1976 BUDGET PRESENTED NOVEMBER 5 ANNOUNCED SEVERAL DOMESTIC FISCAL MEASURES DESIGNED TO BETTER DEFINE AND TO PROVIDE INCENTIVES TO PRIVATE SECTOR. THESE SHOULD BOOST CONFIDENCE OF CHRONICALLY PESSIMISTIC ENTREPRENEURS. CONCERNING FOREIGN INVESTMENT, BUDGET FORMALLY PROPOSED LAW GIVING FOREIGN INVESTORS INCENTIVES AND PROTECTIONS BUT ALSO INCLUDING TIME LIMITATION ON OWNERSHIP. BUDGET ALSO SAID THAT GSL WOULD ENCOURAGE EXISTING AND NEW FOREIGN BANKS TO PARTICIPATE IN FINANCING NEW INVESTMENT AND OTHER ASPECTS OF NATIONAL ECONOMIC DEVELOPMENT.

2. FYI COMMENT: ALTHOUGH WHOLE TONE OF BUDGET MESSAGE AND OTHER RECENT ECONOMIC POLICY CHANGES
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PAGE 02 COLOMB 03643 180400Z

ARE FAVORABLE TO FOREIGN INVESTMENT CLIMATE,

PROPOSALS AND ACTIONS ARE HIGHLY SENSITIVE POLITICALLY AND WILL REQUIRE MUCH LEADERSHIP AND MANAGEMENT SKILL BEFORE THEY SHOW CONCRET RESULTS.

3. BASED ON DEVELOPMENTS DESCRIBED IN PARA ONE, WE RECOMMEND FOLLOWING REVISION OF SIXTH (LAST) PARAGRAPH IN REF B NARRATIVE STATEMENT: QTE SINCE 1970, MOST NEW INVESTMENT HAS BEEN IN TOURIST HOTELS AND SERVICES AND IN SMALL JOINT VENTURES IN CERAMICS, TEXTILES, AND FISHERIES. THERE HAVE BEEN NO SIGNIFICANT NEW AMERICAN INVESTMENTS. EXISTING US FIRMS HAVE CONTINUED WITH REASONABLE SUCCESS. APART FROM THE COUNTRY'S CHRONICALLY DECLINING ECONOMIC SITUATION, SRI LANKA'S INVESTMENT CLIMATE IS STRONGLY AND NEGATIVELY INFLUENCED BY THE GOVERNMENT'S TRADITIONAL POLITICAL ORIENTATION, BY THE UNCERTAIN STATUS OF THE PRIME SECTOR, AND BY LACK OF A CLEAR LEGAL REGIME FOR FOREIGN INVESTORS. AFTER YEARS OF DEBATE ON THESE ISSUES, THE GOVERNMENT IN ITS 1976 BUDGET : (A) PUT FORTH DOMESTIC FISCAL AND OTHER MEASURES DESIGNED TO ENCOURAGE PRIVATE INVESTMENT, PRODUCTION, AND EMPLOYMENT; (B) PROPOSED ENACTMENT OF A FOREIGN INVESTMENT GUARANTEE AND PROTECTION LAW; AND (C) INVITED FOREIGN BANKS TO PARTICIPATE IN FINANCING NATIONAL DEVELOPMENT. IF IMPLEMENTED, THESE MEASURES COULD SIGNIFICANTLY IMPROVE SRI LANKA'S INVESTMENT CLIMATE. AMERICAN POTENTIAL INVESTORS IN LIGHT MANUFACTURING, FISHERIES, AGRICULTURE FOR EXPORT (EXCEPT TEA, RUBBER, COCONUT), TOURISM AND ALLIED SERVICES SHOULD VISIT SRI LANKA AND EXAMINE THOROUGHLY THE POSSIBILITIES AND FEASIBILITIES. END QTE.

4. INVESTMENT STATISTICS ARE SAME AS IN 1975 REPORT.

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PAGE 03 COLOMB 03643 180400Z

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